

## STOCK MARKET: LESSON 8 & 9

**Objectives:** to conduct research about a company  
to interpret a line graph  
to explain a stock split  
to demonstrate what a ratio is

**Materials:** News article about Nestle' with line graph on back  
Power Point  
Article: *What is a Stock Split? Why Do Stocks Split?*  
Document camera  
Team Folders  
Computer (one per team)



**Procedure:**

1. Show Power Point & use to guide discussion
2. What questions come to mind when you see this graph? (refer to Avril and her team)
  - a. Why would a company so drastically reduce the price of its shares? (have students refer to the info on the chart: years 2008 to 2015; price per share on far right; **D** shows when the company gives dividends; volume along bottom shows that shares were being bought and sold)
  - b. The price of the shares was getting so expensive, that the average stock investor could not afford to invest, so there was a stock split.
  - c. What is a stock split? (see article below for reference)
  - d. What is a ratio? Show video  
<http://www.bing.com/videos/search?q=Explain+Ratio&Form=VQFRVP#view=detail&mid=3F4594D2A37D497167CB3F4594D2A37D497167CB>
  - e. Do quick activity--  
[http://www.softschools.com/math/ratios/ratio\\_coloring\\_game/](http://www.softschools.com/math/ratios/ratio_coloring_game/)  
Ratio game that kids can come up and give their hand at determining a ratio
  - f. For the stock market a 1:10 ratio means for every individual stock you have, the company will give you ten. However, the price will change. Example: If I had one share of stock for \$100, when there is a stock split of 1:10, I would then have ten shares each worth \$10. OR If there was a 2:1 stock split, if each share is worth \$50, two shares equal \$100. The company would give me one share equaling \$100. It is the same value, but I have a different number of shares. It will help to lower the cost per share or increase the cost per share. Keep an eye open for stock splits.
3. Distribute team updated pie charts and note rankings per teams
4. Buy/Sell Stocks→ What strategy will you use? What information will you use to help your team decide?

*Note: In our previous class, a couple students decided they wanted to invest in a company that made chocolate. Everyone likes chocolate and soon it would be winter and people would want hot chocolate. In their research they found Nestle, however, the chart showed a BIG drop in stock price in June/July of 2008. They wanted to know why. As a result, we did some research. This lesson was created in response to their questions.*

**Nestlé®**



# What is a stock split? Why do stocks split?

By Investopedia Staff AAA | 

**A:** All publicly-traded companies have a set number of shares that are outstanding on the stock market. A stock split is a decision by the company's board of directors to increase the number of shares that are outstanding by issuing more shares to current shareholders. For example, in a 2-for-1 stock split, every shareholder with one stock is given an additional share. So, if a company had 10 million shares outstanding before the split, it will have 20 million shares outstanding after a 2-for-1 split.

A stock's price is also affected by a stock split. After a split, the stock price will be reduced since the number of shares outstanding has increased. In the example of a 2-for-1 split, the share price will be halved. Thus, although the number of outstanding shares and the stock price change, the market capitalization remains constant.

A stock split is usually done by companies that have seen their share price increase to levels that are either too high or are beyond the price levels of similar companies in their sector. The primary motive is to make shares seem more affordable to small investors even though the underlying value of the company has not changed.

A stock split can also result in a stock price increase following the decrease immediately after the split. Since many small investors think the stock is now more affordable and buy the stock, they end up boosting demand and drive up prices. Another reason for the price increase is that a stock split provides a signal to the market that the company's share price has been increasing and people assume this growth will continue in the future, and again, lift demand and prices.

Another version of a stock split is the reverse split. This procedure is typically used by companies with low share prices that would like to increase these prices to either gain more respectability in the market or to prevent the company from being delisted (many stock exchanges will delist stocks if they fall below a certain

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price per share). For example, in a reverse 1-for-5 split, 10 million outstanding shares at 50 cents each would now become two million shares outstanding at \$2.50 per share. In both cases, the company is worth \$5 million.

The bottom line is a stock split is used primarily by companies that have seen their share prices increase substantially and although the number of outstanding shares increases and price per share decreases, the market capitalization (and the value of the company) does not change. As a result, stock splits help make shares more affordable to small investors and provide greater marketability and liquidity in the market.



### What is a ratio?

A ratio shows the relative sizes of two or more values.

Ratios can be shown in different ways. Using the ":" to separate example values, or as a single number by dividing one value by the total.

Example: if there is 1 boy and 3 girls you could write the ratio as:

1:3 (for every one boy there are 3 girls)

$\frac{1}{4}$  are boys and  $\frac{3}{4}$  are girls

0.25 are boys (by dividing 1 by 4)

25% are boys (0.25 as a percentage)

<http://www.mathsisfun.com/definitions/ratio.html>